



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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DARLENE GREEN
Comptroller

Internal Audit Section

DR. KENNETH M. STONE, CPA
Internal Audit Executive

January 5, 2011

Rhonda Hamm-Niebruegge, Director of Airports
Lambert-St. Louis International Airport
P.O. Box 10212
St. Louis, Mo. 63145

RE: Review of Airport Dome Renovation Construction Board Letting #8358 and
Contract C-19720 (Project #2010-50)

Dear Ms. Hamm-Niebruegge:

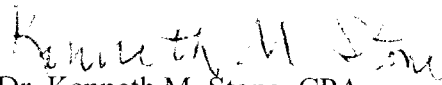
Enclosed is the Internal Audit Section's report for the review of the Airport Dome Renovation Construction Contract with Lambert-St. Louis International Airport for the period June 30, 2008 through March 31, 2010. A description of the scope of our work is included in the report.

Fieldwork was completed on October 13, 2010. Management's responses to the observations and recommendations noted in the report were received on October 20, 2010 and have been incorporated into the report.

This review was made under the authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,


Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure:

cc: Gerard Slay, Senior Deputy Director Lambert-St. Louis International Airport
Cornell F. Mays, Deputy Director Planning and Development Lambert-St. Louis International Airport
Susan Kopinski, Deputy Director Finance and Administration Lambert-St. Louis International Airport
Henrietta Brown, MBA, Airport Assistant Director Finance and Accounting
James Fox, CPA, Airport Audit Supervisor



CITY OF ST. LOUIS

CITY OF ST. LOUIS

LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT

REVIEW OF AIRPORT DOME RENOVATION CONSTRUCTION

BOARD LETTING #8358 AND CONTRACT C-19720

JUNE 30, 2008 THROUGH MARCH 31, 2010

PROJECT #2010-50

**DATE ISSUED:
JANUARY 5, 2011**

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
REVIEW OF AIRPORT DOME RENOVATION CONSTRUCTION CONTRACT
BOARD LETTING #8358 AND CONTRACT C-19720
JUNE 30, 2008 THROUGH MARCH 31, 2010**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a review of Airport Dome Renovation Construction Contract between the City of St. Louis and C. Rallo Contracting, Inc. (General Contractor). The purpose was to determine if the general contractor has adequate controls in place to provide reasonable assurance of the following:

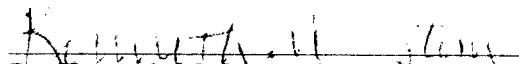
- Payments made by contractor for services employed were in proportion to the percentage of work completed.
- City's authorized representative or designee had reasonable access to contractor's records that might have bearing on the rights, duties and obligations covered by the contractor
- Compliance with applicable laws, regulations, policies, and contract terms.


Conclusion

The opportunity exists to ensure compliance with the agreement. The following are observations resulting from the review:

1. Opportunity to comply with the Right to Audit Clause
2. Opportunity to ensure that monthly estimates of work performed by subcontractors were complete and correct.
3. Opportunity to ensure contractor's payments to subcontractors is in compliance with contract provisions.
4. Opportunity to improve compliance with payment control procedures.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
LAMBERT-ST. LOUIS INTERNATIONAL AIRPORT
REVIEW OF AIRPORT DOME RENOVATION CONSTRUCTION CONTRACT
BOARD LETTING #8358 AND CONTRACT C-19720
JUNE 30, 2008 THROUGH MARCH 31, 2010**

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INTRODUCTION

Background

Board Letting #8358 is the contract specifications document for the Airport Terminal Dome Renovation for which the primary work is to include but not limited to the following:

- Installation of new acoustical finish over existing acoustical finish in the upper floor domes of the main terminal
- Removing the existing acoustical surface to obtain a consistent thickness on all four domes
- Repairing damaged areas of the Alcan and painting of the concrete beams and Alcan

Contract C-19720 is a contract entered into between the City of St. Louis and C. Rallo Contracting, Inc., to complete the primary work as outlined in Board Letting #8358 for the Airport Dome Renovation, Airport Experience Program, and Lambert- St. Louis International Airport

The City of St. Louis has retained KWAME Building Group, Inc., as Program Manager to provide program management services for the Airport Experience Program for the Lambert- St. Louis International Airport. The Program Manager is the properly authorized representative of the President of the Board of Public Service.

Purpose

The purpose was to determine if the contractor has adequate controls in place to provide reasonable assurance of the following:

- Payments made by contractor for services provided were in proportion to the percentage of work completed.
- City's authorized representative or designee had reasonable access to contractor's records that might have bearing on the rights, duties and obligations covered by the contractor
- Compliance with applicable laws, regulations, policies and contract terms.

INTRODUCTION

Scope and Methodology

The review was limited to the review of contractor's and subcontractors' compliance with the terms and conditions of the contract. Review procedures included inquiries of the management of C. Rallo Contracting, Inc., Kwame Building Group, Inc., and Airport Planning and Development to evaluate the manner in which contract deliverables and compliance provisions were obtained. Total contract cost for this renovation was \$2,169,500. We tested construction billings for subcontractors on a random basis totaling approximately \$1,872,630 in the aggregate for the period June 30, 2008 through March 31, 2010.

Exit Conference

An exit conference was held on Wednesday, October 6, 2010. C. Rallo Contracting, Inc., was represented by Teresa Morgan, Accounting Manager and William Johnson, Project Manager. The Airport Planning and Development was represented by Cornell F. Mays, Deputy Director of Planning and Development and Gerald A. Beckman, Engineering. The Airport Accounting and Finance Section were represented by Henrietta Brown, MBA, Airport Assistant Director - Finance & Accounting. The Internal Audit Section was represented by Leonard E. Bell, Jr., Auditor-in-Charge.

Management's Response

Management's responses to the observations and recommendations noted in this report were received from the General Contractor on Wednesday October 20, 2010. The responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

This contract has not been previously reviewed by Internal Audit; therefore, there were no prior observations.

Summary of Current Observations

The opportunity exists for the General Contractor, Sub Contractors and Program Manager to ensure compliance with the terms and conditions of the contract for Airport Dome Renovation. The following are observations resulting from the review.

1. Opportunity to comply with the Right to Audit Clause
2. Opportunity to ensure that monthly estimates of work performed by subcontractors were complete and correct.
3. Opportunity to ensure contractor's payments to subcontractors is in compliance with contract provisions.
4. Opportunity to improve compliance with payment control procedures

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

DRAFT REPORT DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity To Comply With The Right To Audit Clause

It was noted in the review of the contract provisions, five of the six sub-contractors did not comply with the information requested under Article 29, Right to Audit Clause provision. Access to payroll records, invoices for materials purchased, and other accounting records were not made available during the review.

Article 29 of the agreement stated "The Contractor's records shall be open to inspection and subject to audit or reproduction during normal business working hours. The Contractor shall require all payees: subcontractors, insurance agents, material suppliers, etc. to comply with the provisions of this article by insertion of the requirements hereof in any Contract between Contractor and payee."

The General Contractor did not provide adequate oversight to ensure information requested was provided to the Internal Audit Section as requested.

The Internal Audit Section could not provide reasonable assurance that four of the five subcontractors are in compliance with the contract's provision including but not limited to: Living Wage requirements and provisions for pricing change orders, invoices, or claims submitted by the Contractor or its payees.

Recommendation:

The General Contractor's management should ensure that all subcontractors comply with the "right to audit clause" provisions and provide requested information in a timely manner.

Management's Response

C Rallo Contracting Company, Inc. has modified the standard contract to ensure that the subcontractor is tied directly to the Owner Contract. Also, in the startup meetings between C Rallo Contracting Company, Inc. and the sub-contractor, will be told about the Right to Audit Clause.

2. Opportunity To Ensure That Monthly Estimates Of Work Performed By Sub-Contractors Were Complete And Correct.

In review of the pay applications and submitted lien waivers, it was determined that the general contractor overstated the value of the monthly estimates of work done in that the amount of the lien waivers did not agree to the amount billed for vendors listed:

Pay Applications	Amount Billed	Percentage of Amount Billed to Initial Contract Amount	Amount of Lien Waivers	Percentage of Lien Waivers Submitted to Initial Contract Amount
1	276,461.40	.13	276,462.42	.13
2	86,045.99	.04	86,045.98	.04
3	417,841.50	.19	455,755.33	.21
4	437,511.27	.21	392,897.35	.13
5	363,840.99	.17	395,780.54	.14
6	290,929.22	.13	175,876.00	.08
Total	\$1,872,630.37		\$1,782,817.62	

Three of the six pay applications reviewed indicated the general contractor's estimates of work performed by sub-contractors were greater than the actual percentage of work performed when compared to the amount of lien waivers submitted. One of the pay applications reviewed indicated the general contractor's estimates of work performed was less than the actual percentage of work performed when compared to the amount of lien waivers submitted.

For the six pay applications reviewed, total billed for subcontractors' work was \$1,872,630.37. A review of canceled checks for subcontractors within the pay applications time periods shows that a total of \$1,389,675 was paid to subcontractors for the amounts billed to the City of St. Louis.

Based upon review of the general contractor's canceled checks, it was concluded the general contractor billed \$482,955.10 in excess of actual payments to subcontractors for the six pay applications reviewed.

2. Continued

Article 24 of the contractual agreement states that “monthly estimates of the total amount of the work done and of the value thereof at the prices named herein.”

Article 25 of the contractual agreement provides for the contractor to employ services of others for the specific portions of the work included in the agreement. The Contractor is to make payments in reasonable proportion to the amount paid to the contractor for such portions of the work.

The contractor submits a pay application listing the vendors and the amounts to be paid to be a representative of the percentage of the work done and completed thus far on a construction or design contract. After the first pay application, the contractor must submit with each subsequent pay application lien waivers for the amounts paid from the previous pay applications.

The General Contractor’s invoices and reported estimates of work done by sub-contractors were not reviewed for reasonableness or accuracy with each pay application submitted for payment by the program manager for C-19720.

The General Contractor requested funds from the City that was in excess of the actual percentage of work completed in 67% of the pay applications reviewed.

Inaccurate estimates of work performed may result in loss of interest revenue to the City of St. Louis for balances maintained in the Lambert St. Louis International Airport Revenue Fund account.

Recommendation

General Contractor should ensure progress billings on construction work that can be supported by percentage of work completed.

The program manager should ensure that all billings for work performed on construction agreements can be supported by documented assessments of actual work performed.

2. Continued

Management's Response

The CM required lien waivers from previous applications that meet or exceed the cumulative total for each subcontractor listed on the vendor record that is part of the airport billing program. To date the actual total of waivers has exceeded the amount billed.

It is understood that in the future we will monitor each line item on a Schedule of Value (even when it is a lump sum contract) to ensure that billing percentage and actual billed by the subcontractors is tied out.

Should there be any difference; a separate spreadsheet will be attached with the billing identifying these items. This was a remedy suggested by the Internal Audit Section

3. Opportunity To Ensure Contractor's Payments To Sub- Contractors Is In Compliance With Contract Provisions.

In the review of checks paid to subcontractors for this Board Letting and Contract, payments of \$455,747 due to sub contractors were not paid within ten days of receipt of payment from the City of St. Louis. The checks were dated on an average of twenty-nine (29) days after the date of check from the City to the General Contractor for amounts due to subcontractors for obligations met.

Section 15 of the Board Letting No #8358 requires the Contractor to submit pay applications at least once a month to ensure obligations under sub contracts awarded to subcontractors are met. In addition, the Contractor shall pay sub contractors, suppliers, and vendors, including M/WBE their respective sub contract amounts within 10 calendar days after the contractor receives payment.

The General Contractor's accounting process did not develop procedures to comply with the contract's requirements regarding prompt payment to sub- contractors.

Untimely payments to subcontractors for obligations met may affect sub-contractors' ability to complete the job, impair subcontractors' established business relationships with suppliers and vendors and adversely affect their cash management.

3. Continued

Recommendation

The General Contractor should revise accounting procedures to ensure payments to subcontractors are complete within ten (10) days of receipt of payment for billings submitted to the City of St. Louis and are in compliance with the contracts terms and provisions.

Management's Response

C Rallo Contracting Company, Inc. has a different controller and has he put a procedure in place to monitor checks as they come and the payments going out to ensure that timely payments are made and that contractual terms and provisions are met. The only time we would not release a payment to a subcontractor or vendor is if they have not provided necessary backup required by contract.

4. Opportunity To Improve Compliance With Payment Control Procedures

One additional billing for sub-contractors (pay application #7) was reviewed. The General Contractor failed to comply with the following items:

- For the seven billings reviewed, total billed for subcontractors' work was 1,992,061. Total amount of lien waivers provided for amounts paid to subcontractors was 2,017,618
- The General Contractor did not comply with the requirement to submit pay applications on a monthly basis.

Section 01026 of the Board Letting #8358 requires the Contractor to comply with the following payment control procedures:

- Base request for payments on the approved schedule of values and monthly progress inspection
- Submit partial lien waivers for the amounts requested on each item from previous pay applications and when application shows completion, submit final or full waivers
- At the conclusion of each estimate or pay period, submit the "Record of Payments to Sub Contractors, Material Suppliers, and Other Vendors"
- Payment applications are to be submitted monthly.

4. Continued

The various Project Managers assigned by the General Contractor did not consistently apply the contract's payment procedures for submitting invoices and lien waivers as outlined in Section 01026 of Board Letting #8358.

The difference of \$25,557 (Amount of lien waivers less the amount billed for sub contractors) could not be identified to a specific vendor.

The risk exists that inaccurate billings may result in overcharges in amounts billed for sub-contractors.

Contractor should improve compliance to the Payment Control Procedures to ensure partial lien waivers agree to the amounts requested from each pay application.

Recommendation

The Internal Audit Section recommends to the Accounting and Finance Section that the matter of lien waivers not being reconcilable to payments made to sub-contractors be resolved by the General Contractor before the retainage is released although affidavits are to be provided.

Management's Response

C Rallo Contracting Company, Inc. has turned a total of lien waivers in that exceeds the amount billed. There were a couple of vendors that were paid more than money drawn. The reason could stem from various reasons (deposits, down payments, Rallo cost not to be in an owner change orders), all of which are legitimate and norm. By the time you get to the last pay application to close out the project, this issue will not exist.

C Rallo will monitor their progress billings differently on future projects and will only turn in lien waivers for what has been drawn. The Controller and Accounting Manager have discussed this issue and will monitor payment differences to make sure that the vendor records and lien waivers match.

Signed affidavits by our subcontractors should be sufficient to close out the contract and warrant the final retention release.